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TO: The Honorable James R. Fannin, Chairman Joint Legislative Committee on the Budget (JLCB)
The Honorable Jack Donahue, Vice Chairman Joint Legislative Committee on the Budget (JLCB)
Honorable Members of the Joint Legislative Committee on the Budget (JLCB)

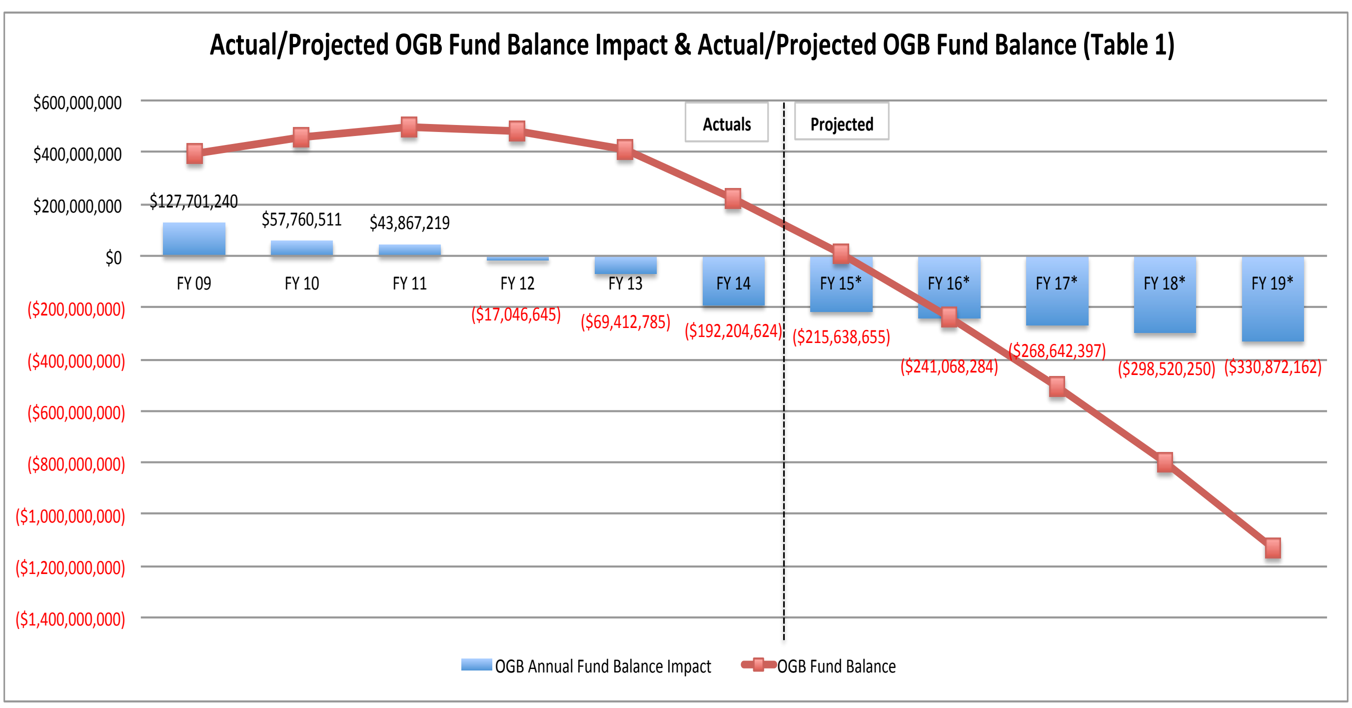
FROM: John D. Carpenter, Legislative Fiscal Officer
J. Travis McIlwain, Section Director

DATE: July 18, 2014

SUBJECT: Office of Group Benefits (OGB) Update

Pursuant to a request at the May 2014 Subcommittee Meeting of the JLCB, the LFO will be providing a monthly report on the status of the overall OGB fund balance to the JLCB. Based upon the latest OGB financial statements (as of May 2014), OGB's current fund balance is approximately $237.2 M, which is $176.2 M less (or 57%) than the fund balance as of June 30, 2013 ($413.4 M). In FY 14, OGB is expending an average of approximately $16.1 M more per month than actual per month revenue collections, which equates to utilizing a projected $192.2 M of OGB fund balance in FY 14 (See Table 1 below). To the extent this continues, OGB's fund balance may be $221.2 M at the end of FY 14 and could be $5.6 M at the end of FY 15. *<u>Note</u>: Without the 5% premium increase effective July 1, 2014, which is anticipated to generate $57.9 M of additional revenues, the anticipated ending year FY 15 fund balance could be a negative $50 M plus. These projections assume no material changes in OGB's expenditures, which on average increase approximately 6% annually (From FY 08 – FY 14).*

See Table 1 below, which shows the annual amount of fund balance OGB "generated" or "lived on" from FY 09 to FY 14 and projects the next 5 years based upon the **<u>current OGB expenditure trend (6% increase annually) and assuming revenues increase 5% annually</u>**. *Table 7 on Page 5 of this document shows OGB's ending year fund balance from FY 80 to FY 14.*

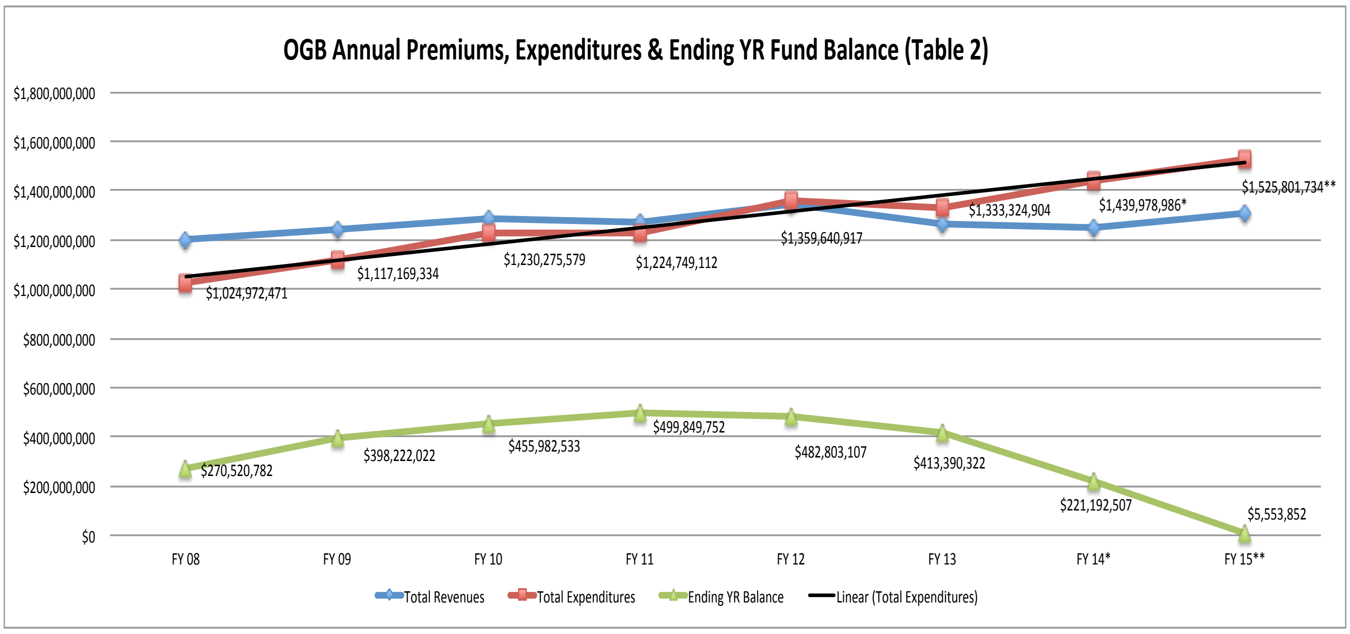


FY 15 – FY 19 OGB Fund Balance Impact & Fund Balance Projection is based upon historical OGB expenditures, which increase an average of 6% annually and assumes OGB revenues will increase 5% due to annual health insurance premium increases.* *<u>To the extent the OGB Administrative changes and Health Insurance Plan changes suggested by Alvarez & Marsal (A&M) result in overall programmatic expenditure savings, the subsequent fiscal year projections of the annual amount of fund balance utilized to run OGB illustrated above would likely be eliminated and/or significantly reduced depending upon the actual expenditure savings of such changes</u>.***

How did we get here?
Table 2 on the next page shows total OGB revenues, total OGB expenditures and the ending year OGB fund balance for the past 6 fiscal years with projected amounts for the remainder of FY 14 and all of FY 15.

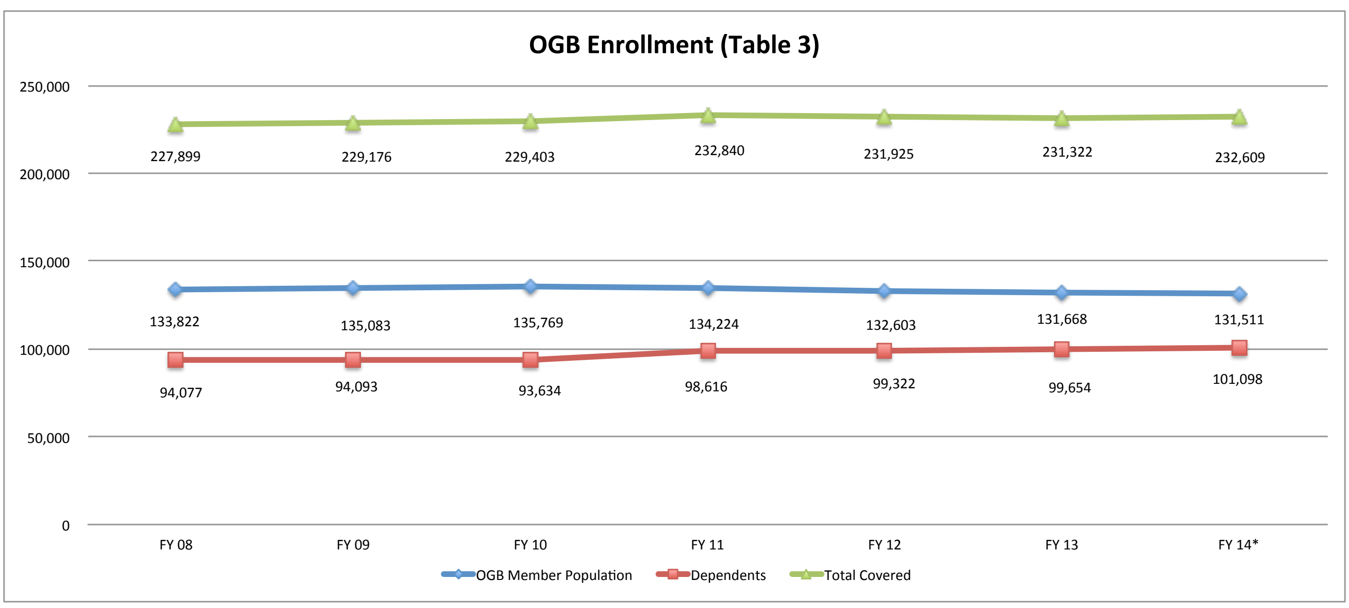
Based upon Table 2, beginning in FY 12 OGB started to expend more than revenue collections. Thus, OGB began to live off its fund balance and has continued to do so through FY 14. There are 3 variables that play a role in understanding how OGB's fund balance decreased from $524.6 M in

April 2011 (FY 11) to the current FY 14 projected ending year fund balance amount of $221.2 M. The variables include: *1.) OGB enrollment, 2.) Total OGB expenditures, 3.) Total OGB revenue collections. Based upon LFO analysis, overall revenue collections is the most significant factor contributing to the reduction in OGB's fund balance the past 3 fiscal years, which largely consist of health insurance premium collections*.



**FY 14 information is based upon the prior 11 months of actual revenues and expenditures.*
***FY 15 information is based upon expenditure and revenue trends from FY 08 – FY 14.*

OGB Enrollment
Based upon the information provided to the LFO by the OGB/DOA, the total number of OGB members paying premiums has remained relatively unchanged having only decreased 2% (or 2,311) from 133,822 total OGB premium paying members in FY 08 to 131,511 in FY 14. In addition, total OGB population covered, which includes all dependents and OGB members combined, has minimally increased from 227,899 in FY 08 to 232,609 in FY 14. Thus, OGB's enrollment changes have likely had little impact to the OGB fund balance, as the enrollment figures have remained static. See Table 3 below.



Total OGB Expenditures
Based upon the latest financial information provided to the LFO by the OGB/DOA, OGB's overall expenditures have grown an average of 6% per year. In fact, the trend line, which is included in Table 2 above, illustrates that FY 14 anticipated expenditures are extremely close to the anticipated trend over a 6-year period (FY 08 – FY 14). Thus, OGB's overall expenditures have consistently increased an average of 6% per year from FY 08 to FY 14 with expenditures increasing 10% and 11% in FY 10 and FY 12 and decreasing 1% and 2% in FY 11 and FY 13. *Note: For more specific information about TPA expenditures only, see Table 6 on page 4.*

% OGB Premium Rate Change (Table 4)	
FY 08	6.0%
FY 09	3.7%
FY 10	0.0%
FY 11	5.6%
FY 12*	8.1%
FY 13	-7.0%
FY 14	-1.8%
FY 15	5.0%

Total OGB Revenue Collections
Health insurance premiums (state share/employee share) represent the majority of OGB revenue collections. Based upon the latest financial information provided to the LFO by the OGB/DOA, OGB's health insurance premiums have increased only an average of 2.1% over the past 7 fiscal years. Table 4 illustrates the OGB health insurance

premium rate changes from FY 08 to the current year (FY 15).

**Due to OGB changing from a state fiscal year to a calendar fiscal year, the health insurance premiums increased twice over a 12-month period during FY 12 (August 2011 by 5.6%, January 2012 by 5.0%). The 8.1% premium increase reflected in the table has been annualized to reflect the FY 12 % change in OGB health insurance premiums over a 12-month timeframe.*

Since FY 12, which is the first fiscal year that OGB expenses began to be higher than revenue collections since FY 06, OGB's expenditures have increased an average of 6% per year (from FY 12 to FY 14), while revenue collections have decreased 7% over the same timeframe. <u>Of the 3 variables previously discussed, OGB revenue collections is the major variable that has contributed to the decline in the OGB fund balance over the past three years</u>.

As has been stated before, including a premium decrease in the prior 2 fiscal years' budget allowed state agencies to lower their annual operating costs, thus allowing the state to indirectly utilize OGB's fund balance to support the FY 13 and FY 14 operating budgets. *Note: R.S. 42:854(C) provides that OGB's fund balance may not be utilized for the state's operating budget. "Notwithstanding any other provision of law to the contrary, any money received by or under the control of the Office of Group Benefits shall not be used, loaned, or borrowed by the state for cash flow purposes or any other purpose inconsistent with the purposes of or the proper administration of the Office of Group Benefits."*

Division of Administration/Office of Group Benefits – Going Forward
In order to mitigate and/or eliminate the current negative over spending "burn rate" of $16.1 M per month, along with a 5% premium increase for OGB members in FY 15, OGB is in the process of implementing a number of the A&M recommendations included in its report to Louisiana. Of the 72 recommendations that A&M believes will save the state $2.7 billion in expenditures (over 5 years), A&M's 2 recommendations associated with OGB equate to $1.1 billion (over 5 years) in expenditure savings. A&M breaks down the OGB recommendations into 2 categories: *administrative efficiency* and *health plan changes*. The specific recommendations and anticipated savings from the **A&M report** are as follows:

<u>*Administrative Efficiency*</u>
- $350,000 – Migration to eCommunications, which could save printing and postage costs, and leverage third-party vendor agreements to increase communication to members through third-party administrator mail distribution as opposed to OGB handling the traditional mailers.
- $????? – Utilize eEnrollment technology and require all state agencies to process dependent verification as opposed to OGB. This will require OGB to employ a new audit team or shift existing personnel into these roles or could result in a potential cost to state agencies depending upon the way this technology is implemented.
- $????? – Cease imaging services.
- $????? – Outsource to a third-party administrator for the administration of COBRA and Flexible Benefits.
- $680,000 – Move the OGB offices to the Claiborne building. OGB will likely have to pay Claiborne building rent. Thus the $680,000 projected rental savings by A&M will be less.
- $70,000 – Eliminate duplicative and unnecessary contracts.
- $1,144,000 – Utilize BCBS to pursue subrogation collections as opposed to being handled by DOA/OGB. According to the DOA, BCBS will now handle this function without an increase in the per member per month fee included in the existing TPA contract.
- $????? – OGB invest in an Interactive Voice Response for its customer service department.

<u>*Health Plan Changes*</u>
- $19,000,000 – Improvement health plan management.
- *$114,000,000 – Health Insurance Plan changes including reducing health benefits to OGB members and dependents.*

Table 5	Monthly	Annualized
OGB's Current Fund Balance "Burn Rate"	*($16,017,052)*	*($192,204,625)*
Administrative Changes (A&M #1)	$233,333	$2,800,000
Health Plan Mgmt (A&M #2)	$1,583,333	$19,000,000
Health Plan Changes (A&M #2)	$9,500,000	$114,000,000
5% Premium Increase	$4,825,000	$57,900,000
TOTAL Adjusted OGB Fund Balance Increase after Recommendations	**$124,615**	**$1,495,375**

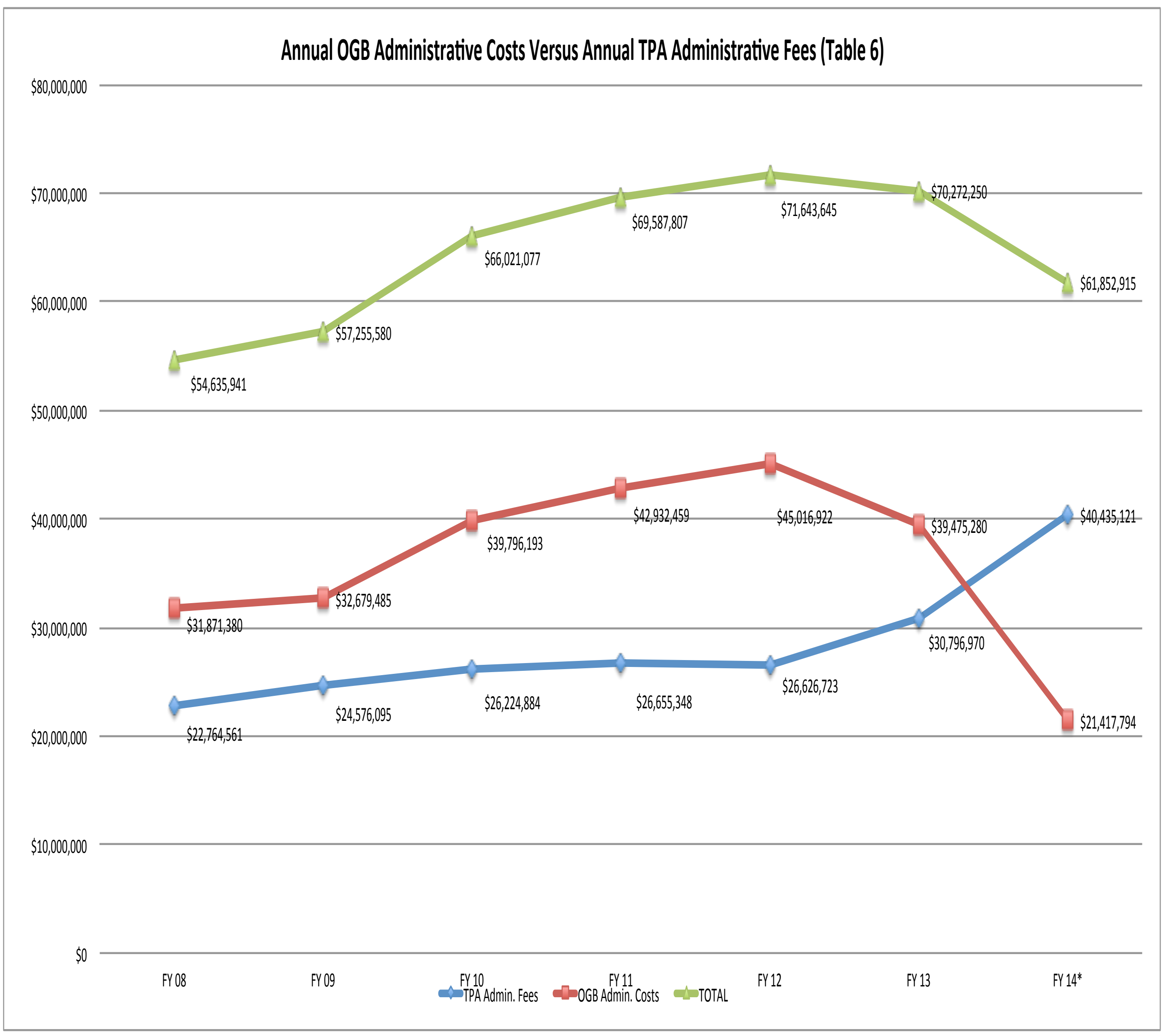
To the extent all A&M recommendations are implemented and result in the projected savings suggested in the A&M report, Table 5 is a monthly and annualized illustration of the potential impact to the OGB fund balance, which shows that OGB's current monthly negative "burn rate" of $16.1 M could be **<u>eliminated</u>**. ***However, the two major components of eliminating the negative burn rate are the increase in health premiums and reducing health plan benefits***. The major changes to the health plans will not be made known until annual enrollment for the 2015 plan year that begins in the Fall 2014. The basis for the illustration (Table 5) is the expenditure saving projections included in the A&M Report. **<u>If these savings do not materialize, the OGB fund impact will be less and potentially could still be negative as it is today</u>.**

To the extent the A&M recommended health plan changes and administrative changes actually result in overall OGB cost savings, the ***state fisc*** *would only experience an actual budgetary decrease if the insurance premiums (state share & employee share) are decreased, which will likely not occur. Thus, any expenditure savings that materialize as a result of these changes would only impact the OGB fund balance and not actually result in any state government budgetary savings.*

Potential OGB Expenditures As A Result Of Implementing Some A&M Recommendations
Some of the A&M recommendations listed on page 3 could result in additional one-time and/or recurring administrative expenditures depending upon the method utilized by OGB to implement the recommendations. The potential costs include:

- IT costs associated with implementing an eCommunications and eEnrollment process, which may result in one-time IT infrastructure costs and annual IT maintenance expenditures;
- One-time expenditure in the approximate amount of $5,000 for the Interactive Voice Response System (Telephone System);
- To the extent existing personnel and TO positions cannot be shifted to the OGB Audit Team, there may be additional personnel costs associated with this group of employees. OGB is currently undergoing reorganization that may result in existing employees taking on these duties.

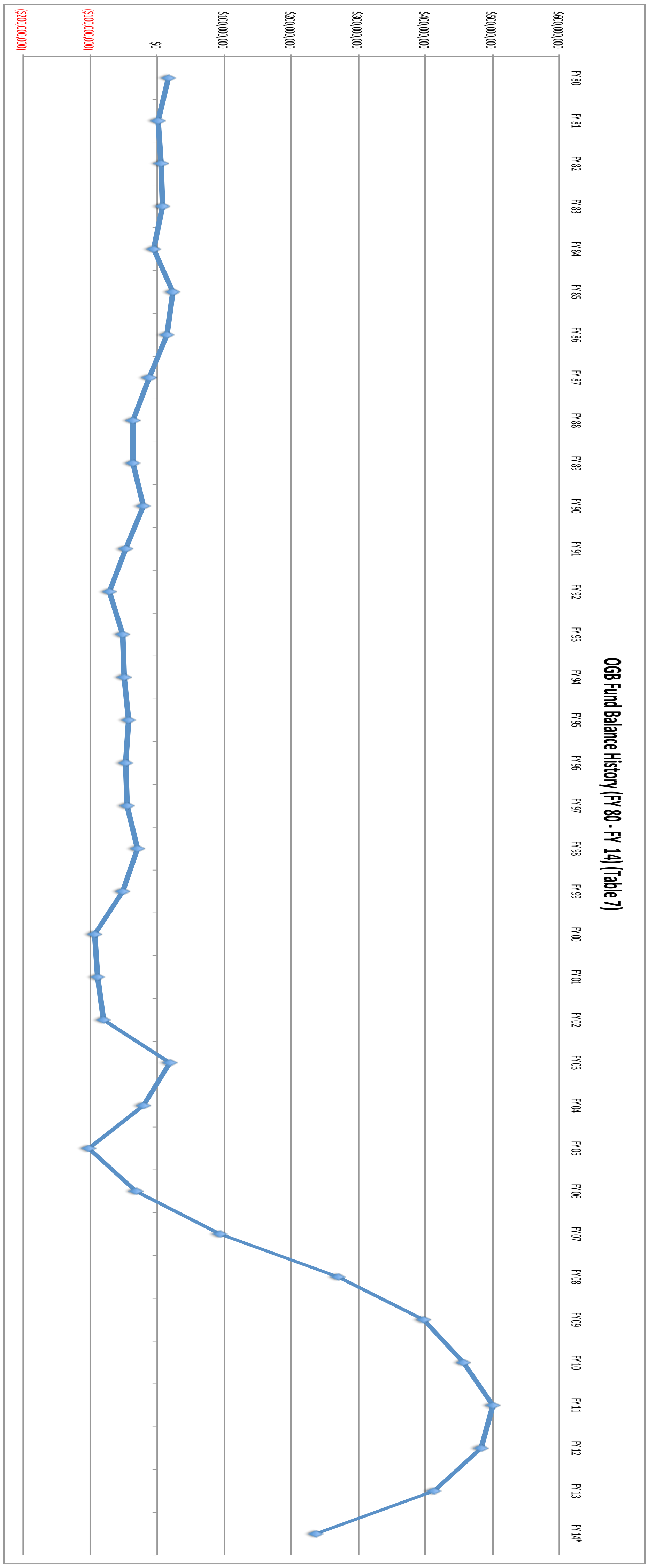
OGB Administrative Costs (OGB Administrative Costs/Third Party Administrator Costs)
Since FY 13, OGB's administrative cost started to shift from actual OGB TO position expenditures to more TPA expenditures. See Table 6 below for a history of such expenditures since FY 08. This is mainly due to Blue Cross Blue Shield (BCBS) taking over the administrative responsibilities of the PPO Plan, which used to be a health plan completely administered by OGB in-house personnel. In November 2012, the House Appropriations Committee and the Senate Finance Committee approved the TPA agreement between OGB and BCBS, which became effective in January 2013 for a 3-year contract to administer the PPO Plan, the Consumer Driven Plan, and to continue to administer the HMO Plan. Under the terms of the contract, the state will pay a monthly rate of $23.50 per member per month (PMPM) fee to BCBS for administrative services that mainly include health insurance network administration and paying medical claims. The contract provides for the PMPM to increase by $1 every year through the end of the contract, which is December 2015. The current PMPM rate is $24.50, which is increasing to $25.50 in January 2015, the last year of the contract term.



Note: To the extent OGB implements the A&M recommendation to utilize the services of a TPA for COBRA and Flexible Benefits, the OGB administrative costs will decrease even further and the TPA costs will increase in subsequent fiscal years.

**The FY 14 numbers include a projection for the month of June based upon the prior 11 months of overall administrative costs.*

OGB Fund Balance History
Table 7 below is a history of the OGB's ending year Fund Balance from FY 80 to FY 14 (through May 30, 2014).



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